



# Zoning rules cost home buyers dear

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Zoning rules – a potent combination of government market intervention aimed at appeasing nimbys, retaining the liveability of suburbs and block sizes, and preventing prices from falling – cost the average Sydney home buyer almost \$490,000 and it's going to get worse.

That's the premium imposed by government land-use regulations, according to Reserve Bank of Australia research, above and beyond the so-called marginal cost of land, or what it actually means to make available extra space for a new home.

The Reserve Bank calls it the cost of "administrative scarcity".

Buyers should consider it the largest "tax" they'll ever pay.

In Sydney – according to the research released yesterday – zoning rules account for 73 per cent of the cost of land, and it pushes the average price of a detached home from \$671,000 to a staggering \$1.16 million.

The impact is similar across other big cities, led by Melbourne where it costs buyers \$324,000; Brisbane \$159,000 and Perth \$206,000, the report said.

Combined with increasing demand from rising population and tax incentives for investors, development restrictions are a massive contributor to the incredible surge in house prices since the late 1990s – pushing prices, in the words of the Reserve Bank – "substantially above the supply costs of their physical inputs".

The research prominently cites a story last July in *The Australian Financial Review* of a Chinese development company that paid a record \$400 mil-

lion for a 363-hectare site in Melbourne's west after it was rezoned. It had been valued a little over a year earlier at \$120 million, and was bought by the vendor in 2004 for \$14.5 million.

"Such large increases in values as a result of zoning changes are inconsistent with the view that a physical shortage of land itself is the main cause of high land values and housing prices," write Reserve Bank report authors Ross Kendall and Peter Tulip.

While the team warn that their estimates of the cost of zoning are not the amounts by which house prices would fall if such restrictions were not in place – determining that would require estimating supply and demand responses – they do show that the effect of zoning has "increased dramatically over the past two decades". This is "likely due to existing restrictions binding more tightly as demand has risen".

"We also note that physical land costs are higher in Australian cities (particularly Sydney) than overseas. So even if zoning restrictions were relaxed housing in Australia would remain expensive relative to cities where zoning is permissive and land is less physically scarce."

The research showed zoning effects are having a similarly costly impact on apartment prices – adding around \$399,000 to the average \$870,000 sale price in Sydney, an extra \$120,000 (taking the price to \$510,000) Melbourne, and \$110,000 (\$539,000) in Brisbane.

"We ... find evidence of a large gap opening up between apartment sale prices and construction costs over recent years, especially in Sydney," they said.

"This suggests that zoning constraints are also important in the market for high-density dwellings."

They warn further likely increases in housing demand will bind existing zoning restrictions "more tightly" and continue putting upward pressure on prices.

"Policy changes that make zoning restrictions less binding, whether directly (eg, increasing building height limits) or indirectly, via reducing underlying demand for land in areas where restrictions are binding (eg, improving transport infrastructure), could reduce this upward pressure on housing prices," the report said.

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Ross Kendall and Peter Tulip,  
 Reserve Bank report authors

## Key points

**Government land-use regulations place a huge premium on property prices.**

**The effect of zoning has "increased dramatically over the past two decades".**

